



DEPARTMENT OF
FINANCE

ARNOLD SCHWARZENEGGER, GOVERNOR

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December 18, 2007

Mr. James D. Hartley, Warden (Acting)
Avenal State Prison
P.O. Box 39
Avenal, CA 93204

Dear Mr. Hartley:

Final Report: Avenal State Prison—Internal Control Review

Enclosed is our final internal control report on the Avenal State Prison (Institution) as of January 31, 2007. The Department of Finance, Office of State Audits and Evaluations (Finance), performed this review to meet the Institution's requirements for the Financial Integrity and State Manager's Accountability Act of 1983, Government Code Section 13400, et seq.

The findings in our report are intended to assist the Institution management in focusing attention on areas of risk, strengthening internal control, and improving operations. The Institution agreed with our findings and we appreciate the Institution's willingness to implement corrective action.

As required by the Financial Integrity and State Manager's Accountability Act of 1983, Government Code 13400, et. seq., please provide us with a corrective action plan within 30 days from the date of this letter. In addition, an updated corrective action plan every six months is required until all of the recommendations are implemented. Mail your corrective action plan to:

Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814

We appreciate the assistance and cooperation of Institution staff and management during our review. In accordance with Finance's policy of increased transparency, the report will be placed on our website. If you have any questions, please contact Kimberly Tarvin, Manager, or Rich Hebert, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Janet I. Rosman, Assistant Chief
Office of State Audits and Evaluations

Enclosure

cc: On following page

AN INTERNAL CONTROL REVIEW

Avenal State Prison

Prepared By:
Office of State Audits and Evaluations
Department of Finance

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The California Department of Corrections and Rehabilitation (Department) operates all state adult prisons and juvenile facilities, oversees a variety of community correctional facilities, and supervises all adult and juvenile parolees during their reentry into society. The Department's adult program includes 33 institutions which span the state from Pelican Bay State Prison in the northwest corner of California to Centinela State Prison near the United States/Mexico border.

The Department's Sacramento Headquarters and eight regional accounting offices perform the fiscal administrative functions related to the adult institutions. Many of these accounting and administrative functions are consolidated within the regional accounting offices. However, some functions, such as inmate trust and stores accounting, are performed at the institutions. The Department's fiscal administrative structure enhances its ability to provide effective fiscal management through centralization of institutions' accounting records, application of consistent accounting procedures, monitoring of fiscal activity, and retention of trained and qualified staff.

The Avenal State Prison (Institution) is served by the Central Coast Regional Accounting Office (RAO). An internal control review of the Institution was performed in conjunction with a review of the RAO. Separate reports are being issued for the RAO and the Institution. The findings in this report pertain to the Institution's controls over the processing and preparation of Institution transactions and financial statements.

State managers are required to maintain internal control over the programs they administer. Internal control is a process designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations. This definition of internal control includes five interrelated components:

- *Control environment* sets the tone of an organization and influences the control consciousness of its staff. It is the foundation for all other components of internal control and provides discipline and structure.
- *Risk assessment* is the entity's identification and analysis of relevant risks to the achievement of its objectives and forms a basis for determining how risk should be managed.
- *Control activities* are the policies and procedures that help ensure management directives are carried out.
- *Information and communication* are the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.

- *Monitoring* is the process that assesses the quality of internal control performance over time.

The objective of the internal control review was to assist the Department in complying with the Financial Integrity and State Manager's Accountability Act of 1983, Government Code Section 13400, et seq. Specifically, the Department of Finance, Office of State Audits and Evaluations, assisted the Department in determining whether the Institution's: (1) assets are safeguarded from unauthorized use or disposition, (2) financial transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of reliable financial statements, and (3) financial operations are conducted in accordance with State Administrative Manual guidelines, certain other state laws and regulations, and the Institution's and Department's policies and procedures.

The review did not include an evaluation of the efficiency or effectiveness of the Institution's operations, or the accomplishment of program goals or objectives.

This report is intended for the information and use of Institution and Department management. It is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

STAFF:

Kimberly Tarvin, CPA
Manager

Rich Hebert
Brandon Nunes
Supervisors

Randy McClendon
Lisa Negri
Cindie Lor
Mary Tesema

EXECUTIVE SUMMARY

The review of the Avenal State Prison's (Institution) internal control indicated that controls were in place and working as intended for cash receipts, purchasing, and contracts. Specifically, cash receipts are correctly recorded and deposited, purchases are properly authorized and made in accordance with state policies, and contracts are properly approved. However, controls could be improved to reduce the risk of errors, irregularities, and material misstatements in the areas of: institutional stores, property, revolving fund, personnel and payroll, and inmate trust fund.

The findings in this report are based on fieldwork performed between November 27, 2006 and January 31, 2007. The findings and observations were presented to the related units and Institution management throughout the fieldwork and at the exit conference held January 31, 2007.

This review was limited to the Institution's accounting and administrative functions and did not include the accounting and administrative functions performed at the Central Coast Regional Accounting Office (RAO) or the Department of Corrections and Rehabilitation Headquarters (Headquarters). Specifically, information technology, budget, and financial reporting activities were not reviewed and the contracts cycle review was limited. The RAO is primarily responsible for the Institution's financial reports and information technology processing for fiscal and accounting functions processed by the California State Accounting Reporting System (CALSTARS). In addition, the RAO and Headquarters process all budget transactions and contracts with a value of \$5,000 or higher for the Institution. Furthermore, the review did not include an evaluation of the efficiency or effectiveness of the Institution's operations, or the accomplishment of program goals or objectives.

Reportable Conditions

Institutional Stores: The Institution's controls over the pharmacy and warehouse inventories do not ensure proper accountability of these items. Specifically, the pharmacy does not maintain a perpetual inventory system to control the receipt and issuance of pharmaceuticals. In addition, independent spot-verifications of the warehouse inventory are not performed quarterly. Furthermore, some orders for storeroom supplies were improperly approved.

Property: The Institution does not maintain adequate control and accountability for property. Specifically, the property register was inaccurate and incomplete, physical inventories are not conducted regularly, and procedures for surveying property are inadequate.

Revolving Fund: The Institution's collection procedures for employee accounts receivables are ineffective because nearly 60 percent were determined to be over 120 days outstanding.

Personnel and Payroll: The Institution's controls over unclaimed warrants are weak resulting in unclaimed payroll warrants over 90 days old are not being deposited and remitted to an escheat revenue account.

Inmate Trust Fund: The Institution's cash disbursements controls over inmate trust are not sufficient to ensure disbursements are made only for allowable purposes. Specifically, a supervisor who signs inmate trust account checks also reconciles this account.

For further analysis of these weaknesses, see the *Findings and Recommendations* section of this report. This report is intended to assist the Institution management in focusing attention on areas of risk and in strengthening internal control and improving operations.



AUDITOR'S REPORT

Mr. James D. Hartley, Warden (Acting)
Avenal State Prison
P.O. Box 39
Avenal, CA 93204

The Department of Finance, Office of State Audits and Evaluations, reviewed the internal control of the Avenal State Prison (Institution) as of January 31, 2007, for conformity with Government Code Section 13400, et seq. The review included gaining an understanding of internal control through observations and interviews, evaluating the design and operating effectiveness of the internal control, and performing other procedures deemed necessary.

The Institution's management is responsible for establishing and maintaining adequate internal control. This responsibility, in accordance with Government Code Section 13400, et seq., includes documenting internal control, communicating control requirements to employees, and ensuring that the internal control is functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control are to provide reasonable, but not absolute, assurance of the following:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements.
- Financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual.

Because of inherent limitations in internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk the internal control may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Based on the review of the Institution's internal control as of January 31, 2007, certain matters were noted involving the Institution's internal control and its operation that are considered to be reportable conditions. Reportable conditions involve matters relating to significant deficiencies in the design or operation of the internal control over financial reporting that could adversely affect the Institution's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition that precludes the Institution's internal control from providing reasonable assurance that material misstatements in the financial statements will be prevented or detected on a timely basis. We believe that none of the reportable conditions is a material weakness. The reportable conditions are described in the *Findings and Recommendations* section of this report.

This report is intended for the information and use of Institution and Department management. It is not intended to be and should not be used by anyone other than the designated parties. However, this report is a matter of public record and its distribution is not limited.

Original signed by:

Janet I. Rosman, Assistant Chief
Office of State Audits and Evaluations
(916) 322-2985

January 31, 2007

FINDINGS AND RECOMMENDATIONS

The review of the Avenal State Prison's (Institution) accounting and administrative controls in effect as of January 31, 2007, indicates that many controls were functioning as intended. Specifically, no reportable conditions were identified for the cash receipts, purchasing, or contract activities. However, some controls were not operating as intended, and corrective action is needed to safeguard assets from loss. If left uncorrected, these weaknesses could increase the risk that material errors and irregularities could occur and remain undetected.

Institutional Stores

Effective internal control over institutional stores is necessary to ensure that inventory is properly accounted for and adequately safeguarded. The following internal control weaknesses over institutional stores were identified

FINDING 1 Lack of Pharmaceutical Inventory System

Condition: The pharmacy does not maintain an inventory showing receipt, issuance, or availability of pharmaceutical items. Total pharmaceutical expenditures for fiscal year 2005-06 exceeded \$2.7 million.

The sensitive nature and volume of pharmaceuticals require that procedures be in place to prevent the loss or misappropriation of these items. Lack of controls over pharmaceuticals may result in monetary loss, misappropriation, or injury due to misuse.

Criteria: State Administrative Manual (SAM), Section 10860, states that a physical inventory of pharmaceutical items be completed every three months.

Recommendation: Establish an inventory control system over pharmaceuticals and conduct a physical count of these items quarterly. Physical counts should be reconciled to the inventory system's balances on hand with adequate explanation of discrepancies.

FINDING 2 No Independent Verification of Warehouse Inventory

Condition: An independent verification of the Institution's warehouse inventory is not performed on a quarterly basis. Not verifying inventory counts increases the risk of loss due to theft and unauthorized use, and misstatement of inventory values in the financial statements.

This is a finding in our prior internal control review.

Criteria: SAM, Section 10860, states that a physical inventory of stores be spot verified by a person who is independent of the storekeeping/warehouse process every three months.

Recommendation: Establish a quarterly independent verification procedure for warehouse inventory.

FINDING 3 Unauthorized Storeroom Supplies Requisitions

Condition: Of 72 storeroom supply orders reviewed, 5 lacked approvals by the requesting employee's supervisor, and 3 did not have the warehouse supervisor's signature. A risk exists that unapproved storeroom supplies could be issued and misappropriated without detection.

Criteria: SAM, Section 10831, requires that all stores requisitions be approved by the unit supervisor, warehouse staff, and original requestor. Materials will be issued from the storeroom for approved requisitions.

Recommendation: Implement procedures that ensure all required signatures are obtained on the Storeroom Supply Order prior to issuing supplies from the warehouse.

Property

Effective internal control safeguards property, plant, and equipment from unauthorized acquisition, use, or disposition. The following internal control weaknesses over the Institution's property were identified.

FINDING 4 Inadequate Property Controls

Condition: Controls over property are inadequate and the Institution's property register is unreliable. The following weaknesses were identified in the property register and General Ledger Fixed Asset Account Group (GFAAG):

- The location could not be determined for 69 percent (9 of 13) of the items selected from the property register for review.
- Of the items selected for review at the physical location 64 percent (7 of 11) were either not in the property register, listed with an inaccurate location, or listed as being disposed of.
- Property tag numbers were not listed for 287 items.
- Property valued at \$695,829 (1,177 items) was assigned to Business Services pending designation of the proper location code. However, the proper location code was never recorded.
- The Institution has not completed a physical inventory of its property within the last three years for reconciliation to the property register and the accounting records.

- Surveyed property was not removed from the GFAAG in a timely manner. Specifically, 142 properties examined were removed from the GFAAG more than 150 days after disposal.

Improperly maintaining inventory records and accounting for property increases the risk that the financial statements may be materially misstated, property could be disposed of without proper authorization or review, and property could be misappropriated without detection.

This is a finding in our prior internal control review.

Criteria: State Administrative Manual (SAM) Section 8600 states that property accounting procedures are to be used to provide accurate recordkeeping.

SAM, Section 8652, requires departments to perform a physical inventory of all property and to reconcile the inventory to the accounting records at least once every three years.

SAM, Section 8640, states that property listed in Property Survey Reports be disposed of in a timely manner.

Recommendations: To strengthen property controls, implement the following corrective actions.

- Ensure that accurate and complete property listings for all institution property are maintained.
- Conduct a physical inventory of institution property and reconcile the results with the property registers and the general ledger at least once every three years.
- Ensure that surveyed property is removed from the property records timely.

Revolving Fund

Effective internal control over the revolving fund is necessary to ensure that controls are established for amounts due, and adequate collection efforts exist. The following internal control weakness over the Institution's revolving fund was identified.

FINDING 5 Employee Receivables Not Collected Timely

Condition: As of November 8, 2006, 59 percent (\$123,285 of the \$209,528) of employee receivables were outstanding for over 120 days. Additionally, as of September 9, 2006, 57 percent (17 of 30) of salary advances totaling \$31,099 were from 1 to 4 years overdue. Failure to collect employee receivables in a timely manner increases the risk that the amounts will never be collected and that state funds will remain unavailable for other uses.

This is a finding in our prior internal control review.

Criteria: SAM, Section 8776.6, allows for collections from current employees to be made by installment through payroll deduction if the employee does not agree to repay the amount owed in a lump sum or does not respond to a written notification within the designated time period.

SAM, Section 8776.7, provides guidelines for collection procedures to ensure prompt collection of accounts receivable from former state employees. Furthermore, if all reasonable collection procedures do not result in repayment, agencies should request discharge of accountability for uncollectible amounts owed.

Recommendation: Apply collection procedures promptly and systematically to recover overdue employee receivables.

Personnel and Payroll

Effective internal control over personnel and payroll is necessary to ensure that the Institution only pays for work that is authorized and necessary for effective operations. The following internal control weakness over the Institution's payroll was identified.

FINDING 6 Unclaimed Payroll Warrants Not Escheated

Condition: Unclaimed payroll warrants over 90 days old are not being deposited and remitted to an escheat revenue account. As of November 28, 2006, the accounting office was holding 34 outstanding payroll warrants over 90 days old, one of which had been held for over one year. This condition could result in the loss or misappropriation of the unclaimed payroll warrants.

Criteria: SAM, Section 8580.5, states that warrants not delivered within 90 calendar days of receipts must be deposited and remitted to an escheat revenue account in the original fund that provided the resources to the State Payroll Revolving Fund.

Recommendation: Establish and enforce a procedure to deposit and remit unclaimed payroll warrants over 90 days old to an escheat revenue account in the original fund that provided the resources to the State Payroll Revolving Fund.

Inmate Trust Fund Cash Disbursements

Effective internal control over cash disbursements is needed to safeguard cash, ensure properly authorized disbursements, ensure proper posting of transactions to the accounting records, and detect errors or irregularities in the records. Effective internal control over inmate trust funds ensures that inmate accounts are properly safeguarded and maintained. The following internal control weakness over the Institution's cash disbursements for inmate trust was identified.

FINDING 7 Inadequate Separation of Duties over Inmate Trust Accounting

Condition: The Accounting Supervisor signed the Inmate Trust Account checks and prepared the monthly reconciliations of the accounts. This increases the risk that inmate trust funds could be stolen without detection.

Criteria: SAM, Section 8080, states that the person authorized to sign checks not complete the monthly reconciliation for the same account.

Recommendation: Designate one employee to sign Inmate Trust Account checks and another employee to perform the monthly reconciliation for the account.

I NSTITUTION R ESPONSE

DIVISION OF ADULT INSTITUTIONS

AVENAL STATE PRISON

PO Box 8

Avenal, CA 93204



October 24, 2007

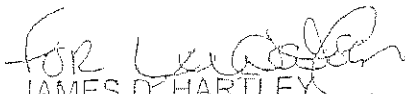
Diana L. Ducay, Chief
Office of State Audits and Evaluations
Department of Finance
300 Capitol Mall, Suite 801
Sacramento, Ca 95814

Dear Ms. Ducay:

Avenal State Prison staff have reviewed the Draft Report of the Internal Control Review conducted by the Department of Finance, Office of State Audits and Evaluations. We appreciate the cooperation and professionalism of the audit team during their visit to ASP. The draft report accurately reflects the findings, which were discussed with ASP staff, and is helpful in improving our internal controls on the reportable conditions involving institutional stores, property, revolving fund, personnel and payroll, and inmate trust funds. ASP staff have already corrected or started to address the areas identified as being out of compliance and should have all issues resolved by the end of fiscal year 2007/2008.

If you have any further questions, please contact Craig Chavez, Correctional Business Manager I at (559) 386-6009.

Sincerely,


JAMES D. HARTLEY
Warden (A)
Avenal State Prison